R

10651

845j.2614/6-2861

155

AFW - E. S. Hermberg
(Drafting Office and Officer)

DD.

DECLASSIFIED
DEPARTMENT OF STATE

Approved in B
7/14/61

Memorandum of Conversation

DATE: June 28, 1961
(2:30 pm)

SUBJECT: Volta/Valco Financing

PARTICIPANTS: Ghana Negotiating Team, Volta/Valco - The Honorable K. Gbedemah, Major R. N. M. Milton, H. F. Winful, Charles Spofford.

State - B - Under Secretary Ball, L - Abram Chayes, B - George S. Springsteen, AFW - W. B. Coote, AFW - E. S. Hermberg.

COPIES TO:

S/S	EUR
B	L
G	E - 2
S/P	B/FAC
AF	ICA
AFW - 2	DLT

Amembassy ACCRA
INR/C

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY _____ DATE 14 MAY 1982
RDS ☐ or XDS ☐ EXT. DATE
TS AUTH.
ENDORSE EXISTING MARKINGS ☐ REASON(S)
DECLASSIFIED ☐ RELEASABLE ☑
RELEASE DENIED ☐
PA or FOI EXEMPTIONS
JUL 19 1961

Mr. Mr. Ball informed Mr. Gbedeman that we hoped to get a letter to Mr. Nkrumah in time for Ghana's Republic Day indicating that all major issues involved in the negotiations on the United States' portion of the financing of the Volta/Valco project have now been resolved. Mr. Gbedemah stated that while he did not want to press us on any particular date, he thought Nkrumah now would, if possible, like to make the announcement on the opening day of Parliament on the 4th of July rather than in the projected radio talk on the 1st of July.

Mr. Chayes then briefly reviewed the problems still outstanding on the financing of the smelter. He noted that we now had resolved all principal points with the exception of two matters which he wanted to refer to later in the meeting. There were, of course, still some minor technical questions to be settled but provided that agreement could be reached on these two points, the United States Government's share in the financing of the smelter could then be considered as assured and we would be in a position to send a letter to that effect to Mr. Nkrumah.

As far as the dam itself is concerned, Mr. Chayes explained his understanding that the Ghana Mission was making progress in the discussions with the IBRD and that once Ghana and the IBRD had reached agreement, this would automatically resolve the outstanding problems on the....

DECLASSIFIED

CLASSIFIED FILE

FILED
JUL 20 1961

845J.2614/6-2861

on the U.S. portion of the financing of the dam. Mr. Gbedemah indicated his agreement with the foregoing.

Mr. Chayes then returned to the two points he had mentioned previously. He indicated that they were of equal importance and that he hoped it would be possible for Ghana to meet our requirements on them.

The first point concerned overrun costs on the smelter. As Mr. Gbedemah was aware, the initial estimate of $128 million for the smelter already included an allowance of about $20 million to meet rising costs. In order to meet the requirements of the IBRD, the U.S. Government and Valco had decided to provide, if necessary, an additional $42 million to meet further cost increases should these arise. Mr. Woods of Valco felt that if costs should run even higher than the $170 million on which financing has now been assured, the Government of Ghana should agree to finance any further additional cost. Mr. Chayes stressed that we did not expect such additional costs to arise but felt that in any case, if this contingency should happen, Ghana would not want to leave the smelter uncompleted. Mr. Gbedemah agreed that it was highly unlikely that costs would run above $170 million. He stated that he thought Ghana could agree to provide any additional money needed provided Valco first tried to raise, on a "best efforts" basis, such additional funds from other sources and was unsuccessful in doing so. Mr. Chayes indicated that he thought such a formula would be acceptable as long as it was clear that the Company was under no firm obligation to furnish further funds but only to make its best efforts to find such funds.

Mr. Chayes then turned to the second outstanding point. He indicated that the Development Loan Fund's guaranty on the Company's investment in the smelter went beyond a normal expropriation guaranty and also covered a number of other risks. Some of these additional risks were under the control of Ghana, others were not. The guaranty specified that it would come into force only if the damage resulting from any of these events was substantial, exceeding a certain monetary value. In such case, the U.S. Government would pay off the Companies and take over their equity in the investment. The Companies on the other hand could be required to continue to manage the plant, supply the alumina, and to purchase the aluminum at the price fixed in the tolling contracts. Mr. Chayes pointed out that this was an addition to the obligations of the Companies under their General Agreement with Ghana and thus provided added protection in case the guaranty should come into force. The Exim Bank now proposed that, should the Development Loan Fund guaranty come into force and the U.S. take over the Valco stock due to an event under the control of Ghana, Ghana would agree to assume responsibility for the outstanding portion of the Exim Bank loan. Mr. Chayes pointed out that Ghana is already under such obligation in case of classical expropriation, and this further provision extended this obligation only to the other contingencies covered by the Development Loan Fund guaranty and within the control of Ghana. He felt that in practice it had a limited meaning since it is unlikely that Ghana would take steps short of full expropriation which would trigger the DLF guaranty. He pointed out that the Exim

Bank felt...

DECLASSIFIED

Bank felt this additional guaranty by Ghana would enable them to defend the loan more effectively against possible public and congressional criticism. Mr. Gbedemah answered that he could not imagine any future Government of Ghana going back on the agreement the present Government is making with the Companies. He then inquired for how long this conditional obligation of Ghana on the Exim Bank loan would last. It was agreed that it would terminate with the amortization of the loan. The loan is for twenty years. Mr. Spofford then pointed out and Mr. Gbedemah agreed that Ghana would wish to study the terms of the Development Loan Fund guaranty if it was to assume an obligation under its terms. Mr. Chayes agreed and indicated that he saw no objection to making these available to Ghana. He indicated that some people were reluctant to make these details available because they felt Ghana might be offended by some of the contingencies provided for. Mr. Chayes felt that Ghana realized that this guaranty is an insurance policy which attempts to insure not against what is expected but against very unlikely contingencies which, nevertheless, if they should come about would involve tremendous losses to the Companies. It was agreed that Mr. Chayes would see Mr. Cutler (attorney negotiating on behalf of the Company) and try to arrange to get a copy of the guaranty to Mr. Gbedemah.

Mr. Ball then indicated that he was seeing the President at 4:30 and would leave with the President a draft message to Mr. Nkrumah which could be held at the White House until Mr. Chayes advised the White House that agreement on the two outstanding points had been reached with all concerned and a message could then go forward.

Mr. Ball indicated that the President's letter would, also, address itself to the question of finding a Chief Engineer for the Volta Project. We have been in touch with the Canadians and Mr. Diefenbaker is giving it his personal attention. We are also looking into this in case Canada is not able to come up with a suitable candidate. We have also been in touch with the IBRD which is also looking for a candidate. Mr. Gbedemah indicated that since Nkrumah is leaving on July 6 and will be away for five weeks, there is some time left. He hoped that Canada and the U.S. during this time could agree on a candidate. He felt that Ghana would be able to accept whatever joint candidate the U.S. and Canada put forth. He indicated that so far they had considered two candidates--a Swede and a Brazilian. One was too old (55) and the other demanded too much money.

Mr. Gbedemah indicated that he hoped to see Mr. Black on Friday, and it was agreed that Mr. Chayes and Mr. Spofford should see Mr. Knapp of the IBRD to obtain Bank concurrence on the two outstanding points in negotiations on the smelter prior to Mr. Gbedemah's appointment with Mr. Black. Mr. Gbedemah at the close of the meeting indicated that he thought good progress had been made which would have been impossible without the assistance of the U.S. Government, and he thanked Mr. Ball and Mr. Chayes for their assistance.

DECLASSIFIED